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REORGANIZATION OF INSTRUCTION IN FINANCE IN UNIVERSITY SCHOOLS OF BUSINESS¹

The two able and illuminating papers under discussion agree in emphasizing strongly the present chaotic state of instruction in the field of finance. Professor Moulton sums up his survey of the curricula of American universities and colleges in these words:

Courses in the field of finance have, until very recently at least, just grown—without any attempt to organize the material into a coherent whole, without any sequential development of courses, and with little regard for the relationship of the financial system to the general economic organization.

Personally I am ready to accept this judgment with no reservations. Professor Moulton offers a convincing array of evidence.

Professor Gerstenberg believes, if I interpret correctly his brief statement on the question, that a remedy is to be found in more carefully planning the student's attack on the citadels of finance. It should consist of a simultaneous advance along four converging routes, economics, law, mathematics, and accounting. After he has broken through the outer defenses he will continue to follow all four routes. Economics leads on to Money and Credit, Banking, and Foreign Exchange; Law to Corporation Finance and Credits and Collections; Mathematics to Investments, Work of Wall Street, and Insurance; Accounting to Analysis of Corporation Reports.

While we should all agree that in the study of any business subject a great deal of incidental help can be derived from other related subjects, I cannot believe that so elaborate a program is called for. It is the outgrowth, as I see it, of a conception of finance as a vaguely mysterious "science of funds," which can be grasped only by superior minds that are trained to grapple with large figures. I have known writers on finance who had this point of view to such an extent that they had become quite incapable of thinking in units of less than, say, \$100,000,000. They would have been severely shocked at the idea that forethought in providing payment for the family wash would deserve to rank as a genuine financial operation.

¹ A discussion of papers presented by Professors Gerstenberg and Moulton at the meeting of the American Association of Collegiate Schools of Business, May, 1921. See *Journal of Political Economy*, May, 1921, pp. 368-99; 400-409.

The truth is that the essential principles of the art of handling money and credit are simple and almost self-evident. Difficulties in teaching finance are not inherent, but result from plunging too hastily into complex situations. My notion of the right approach to our subject is to start in by studying the local laundry or shoe store instead of the United States Steel Corporation, in which case the student could probably get under way without a long preliminary training in economics, law, mathematics, and accounting.

Professor Moulton has drawn up an indictment of the customary practice of introducing students to the study of finance through a general course in economic theory followed by a course in money and banking, or its equivalent, which to my mind is thoroughly convincing. I hope and believe that Moulton's paper will give the finishing blow to a practice which should have been discarded long ago.

His substitute plan, as explained in his paper and in Dr. Hardy's addendum, may be fairly summarized, it seems to me, as follows: In his first year the typical student takes a series of three courses which together cover the elements of economic and business organization and the theory of value and distribution; in his second year he takes a series of three courses which together cover what is ordinarily labeled business or corporation finance plus a new course in Risks of Capital; thereafter he goes on to a group of specialized courses, including an advanced course in business finance dealing with specific cases. One distinctive feature of the second-year work is the introductory survey course in financial organization which occupies the first term. This introductory course centers about the problem of raising capital for corporate enterprises and through this problem leads the student on to a study of the practical workings of commercial and investment banks, insurance companies, brokerage houses, stock exchanges, and other component parts of the machinery of finance.

Moulton's program seems to me clearly a great improvement. It cuts loose at a fairly early stage in the student's curriculum from the customary rehashing of shopworn theories in which he rightly feels little interest and directs his attention toward a *genuine business problem*. To be sure, Professor Moulton conceives this problem of raising capital, to my way of thinking, in much exaggerated terms. There are thousands of business enterprises, both small and large, in which this is by no means the dominating financial question. Nor do I think it correct to say that commercial banks can properly engage in furnishing working capital; both in theory and in practice their chief function is merely to make

certain types of working capital, such as inventories and accounts receivable, a little more liquid. Furthermore, in passing, I want to make note of my dissent from Moulton's argument that "the traditional distinction between fixed and working capital . . . has little fundamental validity." At all these points it strikes me that he is stretching this "central problem of raising fixed and working capital" in order to make it cover all that he wants to teach in his survey course.

But after all, these are minor criticisms. The essential and noteworthy characteristic of this course is that its motif from beginning to end is a live problem of everyday business. So long as it retains this characteristic it cannot become, on the one side, a mere descriptive review of financial institutions; nor can it become, on the other side, a cultural exercise in the mental discipline of grasping the rival subtleties of opposing schools of economists. The course holds actual professional value for a present or prospective business man.

In all this I am in hearty accord with Professor Moulton. He has made an excellent start in the right direction. My chief complaint is that he has not gone far enough. So far as I can see, the whole system of instruction in finance should be recast in a mold not unlike the one he proposes for an introductory course. I will venture to offer some suggestions on this general problem.

My line of thought on any question in the field of business training finds its starting-point in two postulates which appeal to me as being self-evident truths. It rarely happens, I think, that they are definitely challenged; and it is perhaps equally rare to find them observed.

My first postulate is that business education should be designed to educate men for business. This simple statement may sound innocent enough, but its implications are far-reaching. Indeed it is tantamount to saying that our university schools of business are vocational schools. If anyone dislikes the sound of the word, "vocational," I am quite willing to substitute "professional," which, when used in this connection, has precisely the same meaning. The essential point is that the aim of courses of instruction in business is not to cultivate cultural or ethical insight, but to develop work-a-day knowledge and skill. Please do not misunderstand me as saying that there is any fundamental conflict between the two aims or that genuine culture and ethics may not appear as valuable by-products of professional studies. But I do assert with emphasis that loose thinking as to the primary object of business education (which sometimes appears to be combined with a naïve desire to conceal one's utilitarian associations from colleagues who profess the

more elegant and refined arts and sciences) is at the bottom of a great deal of roundabout and ineffective teaching in schools of business. One would have little respect for a law school or a medical school that failed to center its efforts on giving an adequate training for actual practice. By analogy, I should say that a school or department which enrolls students on the implied promise to prepare them for business pursuits and then offers them chiefly elaborations of economic theorizing is—quite innocently—selling gold bricks.

This may seem to be wandering far afield from our subject. I will try to show a little later that these observations have some bearing on the problem of organizing instruction in finance.

My second postulate is that the main function of teachers, even those in universities, is to teach. Teaching is an art which has its well-established principles. So far as my experience goes, these principles are ignored by an overwhelming majority of university instructors. Professor Moulton has cited some of his own experiences as a student which go to show how completely the fundamentals of sound teaching were disregarded. There is a basic principle of pedagogy to guide us in organizing courses of instruction, which I should like to recall to your minds. It may be stated thus: Begin with facts, principles, and questions which are relatively simple, concrete, familiar, and interesting; work up through a series of related facts, principles, and questions to those which are relatively complex, abstract, unfamiliar, and at the outset uninteresting. I submit for your consideration the opinion that most university courses—and I regret that I cannot conscientiously except those in schools of business—follow almost exactly the reverse order. They set forth the ideas that are in the professor's mind, in what he conceives to be their logical arrangement; in the meantime the unfortunate student's mind goes floundering as best it may through an untrodden maze of misunderstood terms that bear no clear relationship to facts within the student's own experience or mental grasp.

Let us return now to courses in finance. On the strength of the two postulates it seems to me clear that a system of instruction in financial subjects should meet these two tests:

1. It should prepare men to do better work than they would otherwise do in such functions as buying insurance, collecting money, borrowing money, extending credit, serving as treasurer of business concerns, investing and speculating in securities, and directing the financial policy of business concerns. These are actual and typical financial activities. The more directly we drive toward them the better will be our vocational results.

2. It should begin with a study of those financial functions that are already interesting and vivid to the student. This would certainly estop us from starting with a study of money and banking, financial institutions, administrative financial policies, trust finance, principles of insurance, investments, or most of the other courses included in Moulton's collection of titles from university catalogues. It would estop us also from building up a curriculum on so frail a foundation as that supplied by a superficial conception of finance as some kind of vaguely abstract pseudo-science of funds. Finally, it would estop us from attempting or even desiring to formulate any introductory survey course that is merely descriptive.

A scheme of instruction designed to meet these tests will not necessarily be revolutionary. One of the chief changes required is in the point of view of the faculty rather than in the subject-matter of their courses. In the curriculum of financial courses the most important change is a rearrangement of the order in which the courses are taken up. Another change is involved, however, which would affect somewhat the curriculum of the whole school; this consists of doing away with all preliminary required courses and permitting the student to begin his study of finance in his first year. From the beginning, a student's progress in finance could well run more or less concurrently with his progress in the other three major divisions of business study—production, merchandising, and accounting.

Let me name and describe now the introductory course which to my mind best meets the requirements. It is a course for which plenty of texts and other instructional material are available. It is already given, though not in exactly the form I propose, in many universities, and could easily be offered in the others. This course is Collections and Credits.

The very mention of the name suggests, I have no doubt, numerous objections. This is a specialized course, someone may say, of direct interest to comparatively few persons. Another may object that it is largely concerned with details of clerical activities. On the other hand, an even more common practice is to treat this as if it were a complex and mysterious subject from which the uninitiated mind must be kept at a safe distance and which demands preliminary studies of economics, law, elementary and advanced accounting, industrial organization, economic history, corporation finance, and heaven knows what. It seems to me that a convincing answer to this last objection can be found in the fact that few credit and collection men—and there are some mighty good

ones—have any knowledge of these subjects *except*—please note this exception—what they have gathered for themselves out of their own daily work. As for the other objections, perhaps a description of the proposed course will better show us whether it is broad enough and contains enough “mental pabulum,” as Moulton calls it, for our purpose.¹

The course I have in mind leads off with an analytical review of the various types of people and concerns who owe money, ranging from prompt payers to those who are skilled in all the arts of fraud; this section might be called “collection psychology.” Then follows a review of the various instruments that represent collectible debts; open accounts, subscription contracts, promissory notes, trade acceptances, and so on. Next comes the machinery for making collections; direct appeals, banks, collection agencies and lawyers, which would involve devoting some attention to collection laws. This division of the course closes with a thorough study of collection cases, methods, policies, and standards of results. The second division on credits considers the various sources of information, the intelligent reading of financial statements, the analysis of a concern’s organization and policies, general financial conditions, and other factors in the credit work of both commercial and banking concerns.

Please note that in this brief description I have touched upon practically every subject within the range of financial instruction in schools of business. In what detail each topic shall be covered is a question to be decided on the basis of the knowledge of the instructor, the capacity of the students, and the amount of time allotted to the course. At any rate there is no lack of content nor of problems in this course. Yet it does not merely wander hither and yon. It is tied firmly together around its central theme. It starts out, in accordance with our pedagogical rule, by discussing cases which are simple, concrete, familiar, and in their nature interesting. It goes on step by step to take up more remote and difficult cases. At the end of the course, if intelligently conducted, the student has completed his introductory survey of the field of finance and is prepared for reasonably advanced courses. I

¹ In subsequent discussion Dean W. H. Walker pointed out another objection, namely, that experience has shown that few students care to take courses in Collections and Credits. This is quite true. But since the proposed course would be designed to serve as a general introduction to the study of finance, it could quite properly be given some other title, such as Financial Practice, or the like. The substance of the proposal is that the standard introductory course, instead of centering about the problem of raising capital, as in Professor Moulton’s plan, should center about the simpler problems of collecting money and granting credit.

trust it will not be considered a fatal objection that he has at the same time acquired knowledge and skill of such definite usefulness that he could actually command a higher salary than he would otherwise be worth.

This proposed course aims at much the same objective as Professor Moulton's introductory course and uses the same method of tying up everything to a central problem or series of problems. Wherein is the two-pronged problem of collecting money and granting credit superior for this purpose to the problem of raising corporate capital? Well, in the first place, it comes much nearer to being a universal problem; it belongs alike to the local grocery and the world-wide combination; it is a live problem this morning in half the business offices of the country; it directly concerns the salesman and the purchaser of goods, as well as the treasurer and his assistants; it is a problem that no business in any line or department can afford to pass by. In comparison, the problem of raising capital, even when we force its interpretation to include ordinary bank loans, affects few concerns. What is even more to the point, it directly affects only a few individuals, usually only one, in each concern. Raising capital for business is a problem that is remote from the daily thought of the vast majority of young men, whether in offices or in schools. Collecting money is not remote; it is a simple, concrete, familiar, and interesting problem. For these reasons, while I do not oppose Moulton's proposal, I am convinced that the course just described would give students an even better start in their study of finance.

Following the introductory course in Collections and Credits (or Financial Practice) the field would be adequately covered, I am inclined to think, by eight other courses which would follow in approximately the order given. These courses would be of unequal length. Their descriptive titles, as given below, sufficiently indicate their contents. It seems to me that there is little danger of overlapping, except in the course at the beginning and in the three courses toward the end where the overlapping is intended.

Business Finance—This could be more advanced than is usual because many of the elements would have been covered in the course on Collections and Credits.

Principles of Banking and Insurance.—These two subjects, I believe, can be economically and effectively combined. In its essence insurance is merely a form of deferred banking. The unreal and confusing distinction so often made between Theory of Banking and Banking Practice could profitably be cast aside.

Investments and Investment Banking.

Governmental Finance.—This would include taxation, governmental obligations, governmental currency issues, and the effects of governmental activities on the financial structure.

Cycles of Business.—This should emphasize forecasting methods.

Stock and Produce Market Operations.

Speculative Risks of Capital.—I have been very much impressed by the value of this new course as described in Dr. Hardy's addendum to Mr. Moulton's paper.

Current Financial News and Reports.—This course was first suggested to me by an army officer who was then serving on the faculty of the School of Business of the A.E.F. University at Beaune, France. The "university" was improvised for the benefit of soldier students shortly after the armistice. There were few textbooks. This officer proposed that a class of fairly advanced students in finance should be formed and that they take as their texts current American and European financial journals. Each subject treated from day to day in the news was made the subject of discussion and investigation. The plan appeals to me as giving an excellent basis for a closing survey course in finance. It would give the men a chance to develop their own judgment, to see for themselves how closely intertwined are all financial questions, and to make actual applications of all that they have previously studied.

The nine courses that have been proposed would naturally be supplemented in each school by such specialized courses as local or temporary circumstances might require. They are put forward not as an ideal program of instruction in finance, but as a workable program which is believed to be pedagogically sound.

One natural question which demands some answer might take this form: "The criticisms of Gerstenberg and Moulton and yourself seem too sweeping to be altogether convincing. If financial instruction is so thoroughly unsatisfactory as has been claimed, why hasn't it long ago been changed?" A complete answer would take us back too far into the history of higher commercial education, but I should like to state what I consider the chief reason and see what reaction it draws.

University schools of business were first started for the most part on the initiative of business men. The impulse for their later development has come chiefly from the business world. And this is as it should be. In university circles the new schools were at first looked upon with a mixture of alarm and distaste which was quite to be expected. The normal result would have been that business men, or educators who were familiar and sympathetic with business practice, would have

been given a clear field to organize and control the schools in the same way that lawyers function in law schools, physicians in medical schools, and engineers in engineering schools. If this had happened, I have not the least doubt that instruction in finance (using this only as an example) would years ago have assumed some such form as has been presented by Professor Moulton and myself.

Unhappily for business education, there were previously in existence organized departments which were also busy with the study of business; I refer of course to the departments of economics. It is true that economics was, and is, properly concerned only with the social aspects of business, whereas the new schools of business purported to turn out men individually skilled as managers or as technical experts. But this distinction, vital and deep-reaching as it is, might easily escape a superficial glance. I suspect that it has even escaped some profound economists. At any rate, what could be more natural for a hard-pressed university administrator than to hand his new courses in business to the department of economics? The results have been much the same as they would be if some benefactor were to endow a university school of navigation and the president of the university were to intrust its development, we will say, to the professors of astronomy on the theory that both subjects had, or might have, some connection with the stars.

No one questions the surpassing interest and value of either astronomy or political economy. But the function of schools of business is to train practical navigators in the stormy waters of commerce. And this can be done only by concentrating our efforts on developing the special type of knowledge and ability which modern business demands.

The sooner we all cut loose from an enervating dependence on political economy and begin to build a new structure on a firmer foundation the better for everyone. The new foundation will be a mixture of first-hand information about everyday business with sound principles of teaching. Much of the material for the new structure will be taken from the old one. Not everything needs to be thrown away. But the old incoherent plans had best be destroyed and forgotten.

The proposed reorganization of instruction in finance should be only one part, I believe, of a complete reorganization of the whole program of higher business education.

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